

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WASHINGTON

APPLIED INNOVATIONS, INC., a
Washington corporation, and
ARMADA CORP., a Washington
corporation,

Plaintiffs,

v.

COMMERCIAL RECOVERY
CORPORATION, a Minnesota
corporation,

Defendant.

No. CV-11-330-JPH

ORDER DENYING PLAINTIFFS'
MOTION FOR SUMMARY JUDGMENT
AND DIRECTING FILING A JOINT
PROPOSED AMENDED SCHEDULING
ORDER

BEFORE THE COURT is plaintiffs' motion for summary judgment, pursuant to Fed. R. Civ. P. 56, filed on May 15, 2012, ECF No. 31, and heard with argument on August 15, 2012. Defendant filed a response in opposition on June 8, 2012, ECF No. 36, and plaintiffs replied, ECF No. 43. Rex B. Stratton appeared on behalf of plaintiffs. Gregory J. Myers appeared on behalf of defendant. The parties consented to proceed before a magistrate judge, ECF No. 22.

The lawsuit initially arose in response to a cease and desist letter defendant (CRC) sent to collection agencies that subscribe to a computer based data resource program written and administered by plaintiffs, ECF No. 34 at 5. Kevin Layne is the inventor of the

1 '839 Layne patent and defendant CRC is the assignee, ECF No. 38 at
2 Exhibit 1 at 1; ECF NO. 39 at Exhibits 1-6. Plaintiffs seek
3 summary judgment asking the court to invalidate the Layne '839
4 patent.

5 **I. Background**

6 The Layne '839 patent was granted on January 23, 2007,
7 following a November 5, 1999 application, ECF No. 38 at Exhibit 4.
8 Plaintiffs allege the Layne '839 patent is invalid. In support,
9 they allege the patent was anticipated by a prior art reference,
10 the Evans '139 application, filed March 12, 1999, by inventor
11 Scott Evans, ECF No. 38 at Exhibit 3, pages 50-100.

12 To show the Evans '139 application anticipated the Layne '839
13 patent, plaintiffs rely on an examiner's decision rejecting three
14 claims in the Layne '091 application (a continuation application
15 of the Layne '839 patent) as anticipated by the Evans '139
16 application. The Layne '091 application was filed March 13, 2009.

17 The examiner rejected three claims in the Layne '091
18 application because, as noted, he found they were anticipated by
19 the Evans '139 application. Plaintiffs allege because the Layne
20 '839 patent is the "parent" to the Layne '091 "child" continuation
21 application, all claims in the patent-in-chief are thereby
22 rendered invalid, ECF No. 43 at 2.

23 Defendant asserts the Layne '839 patent is not invalid
24 because (1) the Layne '839 patent antedates the Evans '139
25 application; (2) the Layne '839 patent is distinct and different
26 from the Evans '139 application; and (3) the examiner's finding of
27 anticipation with respect to the continuing application, the Layne
28

1 '091 application, does not invalidate the Layne '839 patent, ECF
2 No. 36 at 1.

3 **II. Basis for Summary Judgment**

4 On May 15, 2012, plaintiffs filed a motion for summary
5 judgment asking the court to invalidate the Layne '839 patent, ECF
6 No. 31, 35. Plaintiffs allege that the

7 sole fact before this Court is the rejection by the
8 Patent Office of the Layne '091 child application. That
9 rejection is disclosed in the file history of that
10 application ... The sole argument before the court is:
11 if the Patent Office found the '091 child application
12 to be not patentable in light of the Evans '139
13 [application] then, as the child flows from the parent,
14 the claims of the Layne '839 patent are invalid as well.

15 ECF No. 43 at 2.

16 **III. Legal Standard**

17 The grant or denial of Summary judgment in patent cases is
18 analyzed under the law of the circuit. *Lexion Med., LLC v.*
19 *Northgate Techs., Inc.*, 641 F.3d 1352, 1358 (Fed. Cir. 2011). To
20 prevail, the moving party has the burden of demonstrating the
21 absence of a genuine issue of material fact for trial. *Anderson v.*
22 *Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986); *Campbell v. State*
23 *Dep't of Soc. and Health Servs.*, 671 F.3d 837, 842 (9th Cir.
24 2011). The Court must view the evidence in the light most
25 favorable to the nonmoving party: "The evidence of the nonmovant
26 is to be believed, and all justifiable inferences are to be drawn
27 in his favor." *Anderson*, 477 U.S. at 255 (1986).

28 **IV. Discussion**

Patents must involve patentable subject matter (§101), be
novel (§102), and nonobvious (§103). 35 U.S.C.A. Pt. II. Once
issued, a patent grants certain exclusive rights to use the

1 invention during the patent's duration. To enforce that right, a
2 patentee can bring a civil action for infringement if another
3 person "without authority makes, uses, offers to sell, or sells
4 any patented invention, within the United States or imports into
5 the United States any patented invention during the term of the
6 patent therefor, infringes the patent." §271(a); see also §281.

7 Among other defenses under §282 of the Patent Act of 1952, an
8 alleged infringer may assert the invalidity of the patent - that
9 is, he may attempt to prove that the patent never should have
10 issued in the first place. See §§ 282(2),(3). A party may argue,
11 for instance, that the claimed invention was obvious at the time
12 and thus one of the conditions of patentability was lacking. See
13 §282(2); see also §103.

14 Patents are presumed valid. 35 U.S.C. § 282. It is the
15 challenger's burden to establish invalidity with "clear and
16 convincing evidence." *Microsoft Corp. v. i4i Ltd. Partnership*, 564
17 U.S. ___, 131 S. Ct. 2238, 2246, 2249, 2252 (2011).

18 A patent's claims and elements are different. The claims of
19 the patent define the metes and bounds of the patent owner's
20 exclusive rights during the life of the patent. Elements describe
21 the limitations within the claims, i.e., broad claims include
22 fewer elements, or limitations, than narrow claims do and
23 therefore cover a wider range of subject matter. Herbert F.
24 Schwartz & Robert J. Goldman, *Patent Law and Practice*, 11, 16
25 (Sixth Edition 2008).

26 The requirements for a continuation application are described
27 at 35 U.S.C. §120. A continuation application is an application
28

1 that (1) claims subject matter that (2) was first disclosed in
2 another application filed at an earlier time, and (3) which names
3 at least one common inventor. Further, the later filed application
4 (4) must be filed before the earlier application has either issued
5 or been abandoned and must make reference to the earlier
6 application. Irving Kayton, *Patent Practice*, 6-1 (Sixth Edition).

7 **V. Assertions**

8 **A. Diligent reduction to practice**

9 Under the rules applicable to this litigation, the first to
10 invent has priority. To antedate means to establish an invention's
11 priority in time. See *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572,
12 1578 (Fed. Cir. 1996).

13 If plaintiffs were able to show the Evans '139 application
14 antedated the Layne '839 patent, they may be able to establish the
15 patent's invalidity. Plaintiffs point out the Evans '139
16 application was filed on March 12, 1999, eight months before the
17 November 5, 1999 application that resulted in granting the Layne
18 '839 patent.

19 Priority may be shown by:

20 (1) an earlier reduction to practice, or

21 (2) an earlier conception followed by a diligent reduction to
22 practice. *Purdue v. Pharma L.P. v. Boehringer Ingleheim GmbH*, 237
23 F.3d 1359, 1365 (Fed. Cir. 2001)(internal citation omitted).

24 Conception and reduction to practice are questions of law, based
25 on subsidiary findings of fact. *Id.*, citing *Hybritech Inc. v.*
26 *Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1376, 231 USPQ 81, 87
27 (Fed. Cir. 1993).

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1 Defendant has produced documents showing Kevin Layne made
2 notes and began working on the invention in 1998, by February 1999
3 the invention was operational with some problems, and that April
4 1999, the invention was operational. See ECF No. 39 at Layne
5 affidavit at ¶¶ 6-15; 39 at Exhibits 1-8 (includes July 29, 1998
6 response to price request for updated computer configuration
7 purchases) (ECF No. 39-3); (fax dated September 4, 1998 indicating
8 defendant CRC's authorization to purchase new equipment from IBM
9 for the invention)(ECF No. 39-6); and ECF No. 39, Exhibits 10-15
10 (detailing problem resolutions).

11 Defendant's evidence, if believed, would show Layne's
12 invention (resulting in the Layne '839 patent) antedated the Evans
13 '139 application by establishing an earlier conception followed by
14 diligent reduction to practice, as defined by 35 U.S.C. §102(g).
15 The second prong of 35 U.S.C. § 102(g) is arguably met because
16 there is evidence the Layne '839 patent is an earlier conception
17 followed by diligent reduction to practice.

18 Plaintiffs must prove patent invalidity with clear and
19 convincing evidence. Whether the Evans '139 application antedates
20 the Layne '839 patent is a disputed issue of material fact.
21 Therefore, plaintiffs' motion for summary judgment on this basis
22 is denied.

23 B. Plaintiffs allege because the examiner rejected the 3
24 claims in the Layne '091 application as anticipated by the Evans
25 '139 application, the Layne '839 patent is rendered invalid.

26 Plaintiffs allege the sole issue on summary judgment is the
27 effect of the examiner's rejection of claims 1-3 in the Layne '091
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1 continuation application on the validity of the Layne '839 patent,
2 ECF No. 43 at 2. The only authority cited for this proposition is
3 *Ormco Corporation v. Align Technology, Inc.*, 498 F.3d 1307 (Fed.
4 Cir. 2007).

5 Plaintiffs allege because the child application, Layne '091,
6 "has now been abandoned after rejection of its claims in light of
7 the Evans '139 application," and the Evans '139 application was
8 not considered by the patent examiner when the patent-in-suit was
9 issued, the parent patent-in-suit should also be invalidated, as
10 the child flows from the parent. (ECF No. 34 at 5-6; ECF No. 43 at
11 2, citing e.g. *Ormco Corp. v. Align Technology, Inc.*, 498 F.3d
12 1307, 1314 (Fed. Cir. 2007).

13 Plaintiffs read *Ormco* too broadly. *Ormco* states
14 "When the application of prosecution disclaimer involves
15 statements from prosecution of a familial patent relating to the
16 same subject matter as the claim language at issue in the patent
17 being construed, those statements in the familial application are
18 relevant in construing the claims at issue. See, e.g., *Wang Lab.,*
19 *Inc. Vv. Am. Online, Inc.*, 197 F.3d 1377, 1384 (Fed. Cir. 1999);
20 *Jonsson v. Stanley Works*, 903 F.2d 812, 818 (Fed. Cir. 1990). In
21 this case, the specifications of the prior '562 patent, which is
22 the parent of three of the patents in issue, and all the presently
23 litigated patents, have the same content. Thus, the prosecution
24 history of the claims of application number 07/973,973, which led
25 to the '562 patent, are relevant in construing the claims of the
26 '432, the '243, the '861, and the '444 patents."
27 *Ormco*, 498 F.3d at 1314.

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1 Claim construction is premature as the *Markman* hearing has
2 not yet been conducted. *Ormco* does not stand for the proposition
3 Plaintiffs assert. Accordingly, summary judgment on this basis is
4 also denied.

5 C. There appear to be distinctions between the claims in the
6 Evans '139 application and the Layne '839 patent.

7 The examiner rejected claims 1-3 in the Layne '091
8 continuation application.¹ Defendant points out the Layne '839
9 patent itself has 21 claims; therefore, defendant asserts, a
10 rejection of the three claims in the Layne '091 continuation
11 application cannot logically invalidate all of the claims in the
12 Layne '839 patent. ECF No. 37 at 2-3, 5-6. Defendant asserts the
13 claims in the Layne '091 continuation application differ from
14 those in the Layne '839 patent. As one example, Defendant observes
15 tiered access is claimed in the Layne '839 patent but not in the
16 Evans '139 application. ECF No. 36 at 17-19; 37 at 5-6; Layne
17 affidavit Exhibit 2 at page 18.

18 Continuation claims may be broader or narrower than a
19 patent's original claims. It is the relationship between the
20 *claims* in a continuing application and the *disclosure* set forth in
21 the corresponding original application that matters. See 35 U.S.C.
22 §112.

23 It is required that a continuing application "discloses and
24 claims only subject matter disclosed in the prior application." An
25 applicant may claim anything in a continuing application that has
26

27 ¹ There were only 3 claims before the examiner because claims
28 4-6 were cancelled.

1 been adequately *disclosed* in the original or parent application.
2 See 35 U.S.C. §§112, 120.

3 Plaintiff fails to present clear and convincing evidence that
4 the claims in the Layne '091 application were fully disclosed in
5 the Layne '839 original patent application.

6 The defense of "anticipation" has not been established:

7 "Anticipation" means the claimed elements of an
8 invention are disclosed in a single prior art
9 reference and arranged as in the claim. It is a
10 narrow, technical defense under 35 U.S.C. §102.
11 "[E]ach and every limitation of the claimed
12 invention [must] be disclosed in a single prior
13 art reference," and must be arranged as in the
14 claim.

15 ECF No. 36 at 9, citing *In re Buszard*, 504 F.3d 1364, 1366 (Fed.
16 Cir. 2007)(additional citations omitted).

17 Whether the Evans '139 application anticipated the Layne '091
18 continuation application, as found by the examiner, is a question
19 of fact. Whether the claims were anticipated by the Evans '139
20 application with respect to the patent-in-suit is also a question
21 of fact. See *Zenon Envtl., Inc., v. U.S. Filtercorp.*, 506 F.3d
22 1263, 1268 (Fed. Cir. 2007). What effect does the examiner's
23 finding, that the Evans '139 application anticipated the 3 claims
24 in the Layne '091 application, have on the validity of the Layne
25 '839 patent? This raises a genuine issue of material fact that
26 cannot be decided on summary judgment.

27 **VI. Conclusions**

28 The Court has reviewed the record and heard the arguments of
counsel. Defendant, as the opposing party, has the burden of
establishing that a genuine issue as to any material fact actually
does exist. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475

1 U.S. 574, 586 (1986). This means defendant must show a fact in
2 contention is material, i.e., a fact that might affect the outcome
3 of the suit under governing law, *Anderson v. Liberty Lobby, Inc.*,
4 477 U.S. 242, 248 (1986); *T.W. Elec. Serv., Inc., v. Pacific Elec.*
5 *Contractors Ass'n*, 809 F.2d 626, 630 99th Cir. 1987), and that the
6 dispute is genuine, i.e., the evidence is such that a reasonable
7 jury could return a verdict for the nonmoving party [in this case,
8 CRC], *Wool v. Tandem Computers, Inc.*, 818 F.2d 1433, 1436 (9th Cir.
9 1987). It is sufficient that "the claimed factual dispute be shown
10 to require a jury or judge to resolve the parties' differing
11 versions of the truth a trial." *T.W. Electric*, 809 F.2d at 631.

12 After viewing the facts and inferences in the light most
13 favorable to defendant, this Court finds defendant demonstrates a
14 genuine issue of material fact for trial, because the facts in
15 contention are material, that is, might affect the outcome of the
16 case, and present a genuine issue for trial, because a rational
17 trier of fact could find in defendant's favor.

18 **IT IS THEREFORE ORDERED:**

19 1. Plaintiffs' motion for summary judgment asking the court to
20 declare the Layne '839 patent invalid, ECF No. 31, is **DENIED**.

21 2. The parties' joint motion to amend the scheduling order, **ECF**
22 **No. 48, is GRANTED in part. The parties are directed to file a**
23 **joint proposed amended scheduling order no later than September**
24 **14, 2012.**

25 The District Court Executive is directed to enter this order
26 and forward copies to the parties.

27 DATED this 17th day of August, 2012.

s/ James P. Hutton
JAMES P. HUTTON
UNITED STATES MAGISTRATE JUDGE